

MAKE THE DECISION THAT'S BEST FOR YOU

Separation from state service is a big step which requires making many decisions. Whether you are retiring, moving to a job outside state government or leaving the state to pursue family or educational goals, you need to decide how to handle the benefits you are eligible to receive. Choosing how you want your Deferred Compensation account distributed is one of these decisions. Thanks to new tax laws, you will be allowed to set the distribution date and time that best fits your needs, and, if your needs change, your distribution election can also be changed.

Things You Need To Consider

- ▣ When you want your account distributed,
- ▣ How you want it distributed, and
- ▣ Your tax consequences.

You have a variety of distribution options from which to choose - a single lump sum, installments, or a plan-to-plan rollover. In addition, you may choose to begin distribution immediately, or wait to start it until some future date. You may also change or discontinue the distribution method you have chosen.

This booklet is designed to help you understand your distribution choices, so that you can make an informed decision that is best for your personal situation. Distribution materials, including the appropriate forms are also included with this booklet.

You may want to ask the advice of a financial planner or tax consultant before making your choice. If you have any questions, or would like additional information or assistance, call the Deferred Compensation Office at 1-800/442-1300, 217/782-7006 or TDD 217/785-3979.

Who is eligible to take a distribution

You are eligible for a distribution when you separate State service and are off any State payroll for 30 days. If you begin a relationship as an independent contractor providing personal services to the State within the 30 day period, you will not be considered terminated and thus not eligible for a distribution.

You now have time to decide

New rules allow you more flexibility in choosing your distribution method and the date you wish to begin your distribution. There is no longer a 60-day election period after separation. As long as you are under age 70 1/2, you can wait to make your distribution decision. When you are ready to begin distribution, contact the Deferred Compensation office at least a month prior to the month you want your first payment.

You can change your distribution decision

At no extra charge, you can start, change or stop your distribution decision since there is no longer the restriction of an 'irrevocable' election. Changes in your distribution payment election are allowed once every calendar quarter.

Select how you want your account distributed

Your distribution can begin immediately or you can wait to start your distribution at any time until you reach age 70 1/2. Remember, there is no penalty for “early withdrawal” associated with distributions from this type of Plan.

- ▣ If the value of your account at separation is **\$5,000 or less**, you may wait to make your distribution decision, take a lump sum distribution, or make the Plan-to-Plan rollover as discussed on the next page.
- ▣ If the value of your account at separation is **\$5,000 or more**, you can choose any one of the available distribution methods listed on the next page.

YOUR DISTRIBUTION OPTIONS AT A GLANCE

Your distribution choices

How it works

Total lump sum

A complete one-time distribution of the total value of your account.

Partial lump sum

A single payment that can be followed by installments or you can wait to resume any other payments.

Installments

The installment amounts may vary. Payments can be made monthly, quarterly, semi-annually or annually. See schedule for distribution dates.

You can choose:

- a definite number of years you want to receive payments

or

- a recalculation of your life expectancy annually to allow payments that would extend beyond your life expectancy at the time you separate state service.

Fixed Dollar Installments

You decide the amount of each installment payment, which stays constant. Payments can be made monthly, quarterly, semi-annually or annually.

Plan-to-plan Rollovers

You may move your retirement plan assets between retirement plans in the public, private, education and nonprofit sectors as you move between employment in those sectors. Monies may be moved between (to and from) 401, 403(b) and governmental 457 plans as well as Traditional IRAs.

Rollovers

Legislative changes now make it possible for separated employees to rollover their retirement assets among 401(k) plans, 403(b) plans, 457 plans and traditional IRA's. Rollovers provide an opportunity for the nation's workforce to consolidate their holdings to a single plan. This will assist in simplifying retirement saving decisions, such as asset allocation and distribution elections, by considering only one account. However, this provision also clearly places the responsibility on the participant to verify the rollover plan's quality of investments and study its expenses.

Participants may want to review each of the options of distribution and review the plan in which they may intend to rollover their money. Investigate each plan for trading costs, restrictive plan rules, and all the costs and fees for initiating and maintaining such a transfer. After all, you have worked hard to save for retirement and build your account to its current day balance.

If you decide to rollover your account, direct rollovers from one plan to the other is preferable. Indirect rollovers, when the participant receives the distribution, have a mandatory federal tax withholding of 20%. Also, some plans do not accept indirect rollovers. The State of Illinois Deferred Compensation Plan does not accept indirect transfers into the plan.

Considerations for Investors

When choosing another retirement plan, there are several issues to consider.

- Does your new employer accept rollovers? While it is mandated that plans allow for a rollover out, it is optional to accept a rollover into a plan.
- What kind of investment options does your rollover plan contain? Will the plan's offerings provide for adequate diversification?
- Assets transferred from a Section 457 government deferred compensation plan must assume the characteristics of the receiving plan. There is no penalty for distribution prior to age 59 ½ in a Section 457. Does your rollover plan have any penalties for early distribution?
- What kind of access will you have to your account and what services are provided?

WHEN DISTRIBUTIONS WILL BEGIN

How installment payments are calculated

The amount of your installment payment is calculated by dividing your current account value by the total number of payments remaining. For example, if you choose five annual installments, the first installment amount will be your account value divided by 5. The next year, the installment amount will be your account value at that time divided by 4.

You may choose any number of years or amount until you reach age 70 1/2. After that your payments may have to be adjusted to comply with the Minimum Distribution requirements. If you elect fixed dollar installments, the amount may have to be adjusted periodically, after you turn age 70 1/2, to meet federal distribution guidelines.

If you choose installments, each installment may be electronically wired to your checking or savings account. If you select this option, complete the Authorization for Deposit of Recurring Payments.

Once you start distribution, your distribution payment(s) will be made according to the Plan's Distribution Schedule. Refer to it for specific accounting dates--the dates that your payments are valued and withdrawn from your account, as well as the dates the checks are mailed or the money wired.

Your payment is taken proportionally from each of your investment options. For instance, if 60% of your money in the Deferred Compensation Plan is in Fund A and 40% is in Fund B, a \$100 payment would be taken proportionally from each Fund - \$60 from Fund A and \$40 from Fund B.

Total lump sum

Your lump sum will be valued for distribution the first accounting date of the month your completed distribution form is effective.

Partial lump sum

Your partial lump sum will be valued for distribution the first accounting date of the month your completed distribution form is effective. After choosing a partial lump sum, you may resume distributions at a later date or you may begin installments.

Installments

Your first installment (whether calculated or fixed dollar amount) will be valued for distribution the first accounting date for that type of payment.

Your Income Tax Conse- quences

The State of Illinois Deferred Compensation Plan is authorized under section 457 of the Internal Revenue Code. Your deferrals and any earnings compound free of current taxes. However, for federal tax purposes, your Deferred Compensation is fully taxable as retirement income when it is distributed to you or your beneficiary.

Deferred Compensation payments are not taxable under the Illinois Income Tax Act and therefore are not subject to Illinois withholding. Out-of-state residents' Deferred Compensation payments may be taxable under the income tax laws of their own state.

Federal income tax withholding is mandatory. New rules distinguish between distributions taken over a ten year period or greater and those that do not.

Distributions over a 10 year period or greater

If you choose a distribution method that extends for a period of 10 years or greater, your withholding will be calculated using the federal withholding tables based on the way you complete the W-4P form. Note that no other income is considered when making the calculation. Remember that you may put an additional amount on line 3 of the W-4P form or we do accept the following percentages: 10%, 11%, 15%, 20%, 23%, 25%, 28%, 30%, 35%, or 40% of the distribution amount to be withheld.

If you do not complete a W-4P form, the withholding will be calculated at a “married-claiming three dependents” rate.

Less than 10 year Distributions

If you choose a a lump sum distribution or a distribution method that extends for a period of less than 10 years, the IRS requires that a minimum of 20% be withheld. You may complete the form W-4P to withhold an amount greater than 20%. If you do not complete a W-4P form, 20% will be withheld.

Social Security Payments Not Affected

Your rights to Social Security will not be affected when your Deferred Compensation account is distributed. Your distribution has already been taxed for Social Security purposes. The Social Security Administration does not consider your Deferred Compensation distribution as earned income to be applied against the maximum a Social Security recipient can earn before Social Security is reduced.

Your Account After You Leave State Service

After you separate from state service, you may no longer defer or make contributions to your account. However, as long as you have an account balance, you will continue to earn interest and/or dividends and receive quarterly statements. In addition, you may move money from one investment option to another in your account. Call T. Rowe Price at 888/457-5770 or 800/521-0325 (TDD) anytime day or night to make transactions. To speak to a representative, call business days between 7:30 a.m. and 9 p.m. (central time). You may also use your computer to make exchanges or check account information by logging onto rps.troweprice.com.

**DEFERRED COMPENSATION
QUARTERLY, SEMI-ANNUAL, AND ANNUAL DISTRIBUTION SCHEDULE
01/01/04**

Quarterly distributions will be made according to the following schedule.

ACCOUNTING DATE		DATE CHECK MAILED/WIRED
01/05/04	Recurring Payments	01/09/04
01/12/04	New Payouts	01/16/04
04/05/04		04/09/04
07/05/04		07/09/04
10/11/04		10/15/04
01/10/05	Recurring Payments	01/14/05
01/18/05	New Payouts	01/21/05
04/11/05		04/15/05
07/11/05		07/15/05
10/10/05		10/14/05
01/09/06	Recurring Payments	01/13/06
01/17/06	New Payouts	01/20/06
04/10/06		04/13/06
07/10/06		07/14/06
10/09/06		10/13/06

Semi-annual and Annual distributions will be made according to the following schedule.*

01/05/04	Recurring Payments	01/09/04
01/12/04	New Payouts	01/16/04
07/05/04		07/09/04
01/10/05	Recurring Payments	01/14/05
01/18/05	New Payouts	01/21/05
07/11/05		07/15/05
01/09/06	Recurring Payments	01/13/06
01/17/06	New Payouts	01/20/06
07/10/06		07/14/06

* Semi-Annual payouts are distributed in January and July

Annual payouts are distributed in January or July (depending upon your termination date), followed by payment on each annual anniversary thereafter.

**DEFERRED COMPENSATION
LUMP SUM AND MONTHLY DISTRIBUTION SCHEDULE
01/01/04**

ACCOUNTING DATE		DATE CHECK MAILED/WIRED
01/05/04	Recurring Payments	01/09/04
01/12/04	New Payments	01/16/04
02/09/04		02/13/04
03/08/04		03/12/04
04/05/04		04/09/04
05/10/04		05/14/04
06/07/04		06/11/04
07/05/04		07/09/04
08/09/04		08/13/04
09/06/04		09/10/04
10/11/04		10/15/04
11/08/04		11/12/04
12/06/04		12/10/04
01/10/05	Recurring Payments	01/14/05
01/18/05	New Payments	01/21/05
02/07/05		02/11/05
03/07/05		03/11/05
04/11/05		04/15/05
05/09/05		05/13/05
06/06/05		06/10/05
07/11/05		07/15/05
08/08/05		08/12/05
09/06/05		09/09/05
10/10/05		10/14/05
11/07/05		11/11/05
12/05/05		12/09/05
01/09/06	Recurring Payments	01/13/06
01/17/06	New Payments	01/20/06
02/06/06		02/10/06
03/06/06		03/10/06
04/10/06		04/13/06
05/08/06		05/12/06
06/05/06		06/09/06
07/10/06		07/14/06
08/07/06		08/11/06
09/11/06		09/15/06
10/09/06		10/13/06
11/06/06		11/10/06
12/11/06		12/15/06

DISTRIBUTION PERIOD TABLE

AGE	DISTRIBUTION PERIOD	AGE	DISTRIBUTION PERIOD	AGE	DISTRIBUTION PERIOD
5		42	54.4	79	19.5
6		43	53.4	80	18.7
7		44	52.4	81	17.9
8		45	51.5	82	17.1
9		46	50.5	83	16.3
10		47	49.5	84	15.5
11		48	48.5	85	14.8
12		49	47.5	86	14.1
13		50	46.5	87	13.4
14		51	45.5	88	12.7
15	81.2	52	44.6	89	12.0
16	80.2	53	43.6	90	11.4
17	79.2	54	42.6	91	10.6
18	78.2	55	41.6	92	10.2
19	77.3	56	40.7	93	9.6
20	76.3	57	39.7	94	9.1
21	75.3	58	38.7	95	8.6
22	74.3	59	37.8	96	8.1
23	73.3	60	36.8	97	7.6
24	72.3	61	35.8	98	7.1
25	71.3	62	34.9	99	6.7
26	70.3	63	33.9	100	6.3
27	69.3	64	33.0	101	5.9
28	68.3	65	32.0	102	5.5
29	67.3	66	31.1	103	5.2
30	66.3	67	30.2	104	4.9
31	65.3	68	29.2	105	4.5
32	64.3	69	28.3	106	4.2
33	63.3	70	27.4	107	3.9
34	62.3	71	26.5	108	3.7
35	61.4	72	25.6	109	3.4
36	60.4	73	24.7	110	3.1
37	59.4	74	23.8	111	2.9
38	58.4	75	22.9	112	2.6
39	57.4	76	22.0	113	2.4
40	56.4	77	21.2	114	2.1
41	55.4	78	20.3	115 & older	1.9



ILLINOIS

Rod R. Blagojevich, Governor

DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

Authorization for Direct Deposit

Please fill out and return to the Deferred Compensation Office

I authorize the State of Illinois to initiate electronic credit entries and the financial institution listed below to receive credit entries, and if necessary, reversing credit entries for any credit given in error or not owed to my account. This authority will remain in effect until I have canceled it in writing.

PLEASE NOTE: Your first check will be mailed to the home address we have on file.

1. Name (please print)	2. Soc. Sec. Number <table border="1"><tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr></table>									
3. Address	4. Check One <table border="1"><tr><td><input type="checkbox"/></td><td>Checking</td><td><input type="checkbox"/></td><td>Savings</td></tr></table>	<input type="checkbox"/>	Checking	<input type="checkbox"/>	Savings					
<input type="checkbox"/>	Checking	<input type="checkbox"/>	Savings							
5. Financial Institution Name, City	Financial Institution Phone Number									
6. Account Number	7. Bank Transit Routing Number (9 digits) : <table border="1"><tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr></table> :									
8. Signature	9. Date	10. Home Phone Number								

Form Completion Instructions

1. Name - Print your first name, middle initial and last name.
2. Social Security Number - Indicate your 9 digit social security number.
3. Print your city, state and zip code.
4. Checking or Savings Line - Indicate whether your direct deposit account is a checking or savings account by circling the item provided.
5. Financial Institution Name, City and Phone Number - Print the name, city and phone number of the financial institution at which you bank.
6. Account Number - Indicate your account number. If depositing into a checking account, the account number is found on the MICR line at the bottom of your personal check.
7. Bank Transit Routing Number - Indicate the 9 digit bank transit routing number found on the MICR line on the bottom of your personal check.
8. Signature - Sign the form.
9. Date Field - Print the date the form was completed.
10. Home Phone Number - Indicate your home phone number.

NOTE: Attach a voided check to the signed authorization form and return to the CMS Deferred Compensation Office, P.O. Box 19208, Springfield, IL 62794-9208.